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# NABE Industry Survey

October 1988

This analysis presents the results of the latest survey of business conditions reported by members of the National Association of Business Economists at their individual companies. The survey was taken in mid-September and is being reported in October 1988. The Industrial Outlook Survey is one of three regular inquiries taken by NABE; the other two are the Policy Survey and the Macroeconomic Forecast Survey.

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## Current Highlights

* Demand is still growing nicely. In the third quarter a strong performance by utilities more than offset slightly less robust growth by goods-producers.

* Export performance remains a strong positive growth force.

* Twice as many companies are increasing capital spending as are cutting back.

* NABE Industry Panelists reject protectionism and government subsidies as ways to improve overseas business. They look instead to faster economic growth abroad.

* Inflation pressures on member firms are not easing yet, but they aren't accelerating rapidly either.

* Shortages are more widespread. More than half of our panelists are now reporting difficulties in obtaining one or more types of inputs. Skilled labor is the most often mentioned.

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## Unit Demand

Demand strengthened in the third quarter. Just over half (52.1%) of all respondents reported rising demand up from 48.1% last period. And fewer reported declines, 11.7% vs 15.0% last time. The percent rising minus percent falling measure which we'll call the "net rising index", rose more than seven points. All of this quarter's increase originated outside of the goods-producing industries. Within the trade, transportation, utilities and communications (TTUC) sector public utilities experienced powerful demand growth, probably due to the abnormally hot summer. For goods-producers the net rising index fell for the fourth consecutive quarter. The percent of respondents reporting rising demand and the percent reporting falling demand were both down slightly from the previous survey.

| Sector | Percent Reporting that Demand is: Rising | Staying the Same | Falling | Net Rising |
|---|---|---|---|---|
| Total | 52.1% | 36.2% | 11.7% | 40.4% |
| Goods-Producing | 46.7 | 40.0 | 13.3 | 33.4 |
| TTUC | 64.0 | 32.0 | 4.0 | 60.0 |
| Other Services | 48.7 | 35.9 | 15.4 | 33.3 |

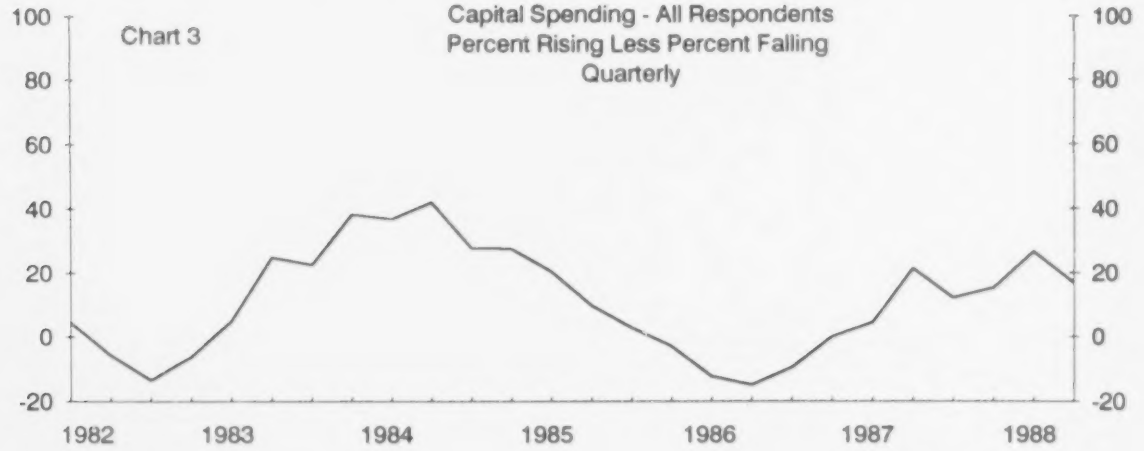
Although the rate of demand growth is down a bit from its late 1987 peak it is still a positive force. Four-and-a-half times as many companies are experiencing growth as are suffering declines. For goods-producers the multiple is three-and-a-half times. Charts 1 and 2 show the net rising index for the total sample as well as for the goods-producing sector. This is a new and, we hope, a more meaningful presentation of the data from past surveys.

Special questions for this survey asked whether or not orders for short and long lead time items had slowed down in the last three months. Of those responding 73% indicated no deceleration in short-term orders, while 27% had seen some slowdown. The answers were almost identical for longer lead time products.

## Capital Spending

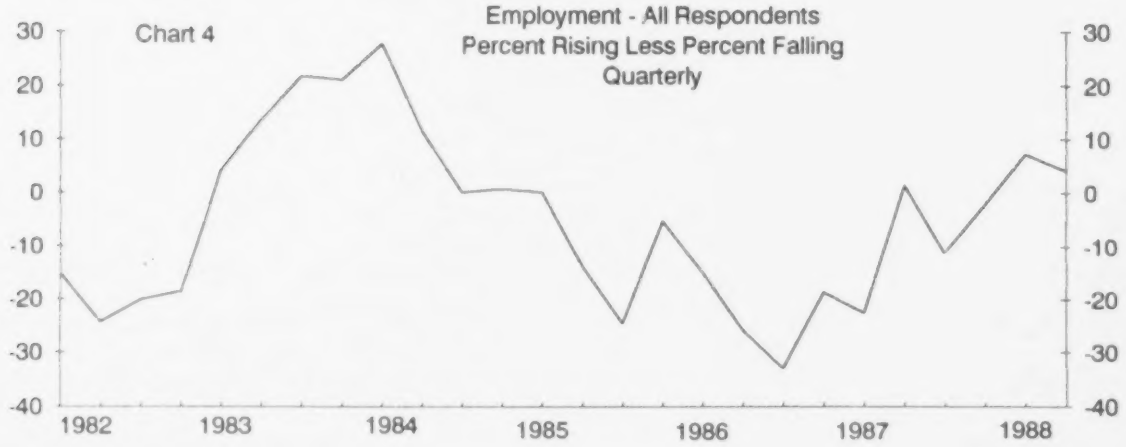
Nearly a third of all respondents report rising capital expenditures. This is down from the previous survey, but still twice as many as are reporting declines. The net rising percent is a solid 17.0%. See Chart 3. Of the three major sectors goods-producers have the strongest net rising index at 25.0% followed by TTUC at 16.0% and other services at 11.4%. These readings are consistent with needs to boost capacity implied by high and rising utilization rates.

| | Percent Reporting that Real Capital Spending is: | | | Net |
|---|---|---|---|---|
| Survey Month | Rising | Staying the Same | Falling | Rising |
| Sept. '88 | 31.8% | 53.4% | 14.8% | 17.0% |
| June '88 | 40.8 | 45.0 | 14.2 | 26.6 |
| March '88 | 32.5 | 50.4 | 17.1 | 15.4 |



## Employment

Most companies (58.3%) are still reporting stable employment levels. The net rising index of 4.1% resulted from 22.9% of respondents reporting rising employment and 18.8% indicating declines. This net measure was down slightly from 7.3% in the second quarter, but was still the second strongest reading in the past 3½ years. See Chart 4.




## Inventories

There is a high degree of satisfaction with current inventory levels. Three-quarters of all respondents say they're about right (up from 64.4% in the last survey) while 16.7% say they're too high and 8.3% say too low. In the goods-producing sector inventories are falling according to 42.9% of respondents and rising according to 25.0%. This net rising index of -17.9% is down from -2.9% in June. See Chart 5.

## Export Performance

Export business remains strong, if not quite so strong as in the two previous surveys. Results are:

| Survey Month | Percentage of Exporters Whose Exports are: Rising | Staying the Same | Falling |
|---|---|---|---|
| Sept. '88 | 57.5% | 40.0% | 2.5% |
| June '88 | 68.9% | 28.9% | 2.2% |
| March '88 | 67.3% | 32.7% | -0- |

More than half of those reporting rising exports said that the pace of exporting was accelerating. To a special question which asked if export orders were decelerating, 88.6% said "NO".

When asked what policies or actions would help most to improve overseas business 42% opted for faster economic growth abroad, 29% said a weaker dollar, 22% wanted a lower federal budget deficit, and 18% said self-initiated market opening actions by our trading partners. There was almost no support for more protectionism or increased subsidies.

## Prices and Costs

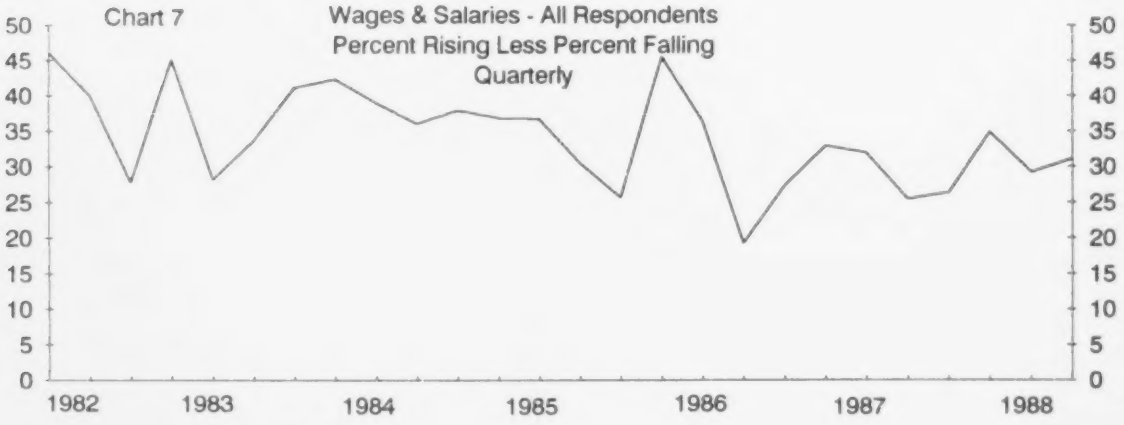
Prices charged by NABE panelists' firms are still rising. The net rising index has increased for two surveys in a row, although it is still below its recent peak in 1987's fourth quarter. See chart 6.

| Survey Month | Percentage Reporting Their Prices are: Increasing | Unchanged | Falling | Net Rising |
|---|---|---|---|---|
| Sept. '88 | 37.8% | 51.0% | 11.2% | 26.6% |
| June '88 | 31.1% | 62.2% | 6.7% | 24.4% |
| March '88 | 32.8% | 48.5% | 18.7% | 14.1% |

Costs are also escalating. Prices of input materials rose at well over half of our respondents' companies during the past three months. The net rising index is now over 50%. One-third of our sample reported rising wages and salaries. The good news is that only 7.5% of all respondents report accelerating labor costs. Chart 7 shows the net rising index for the total sample.

| Survey Month | Percent Reporting that Material Costs are: Increasing | Unchanged | Falling | Net Rising |
|---|---|---|---|---|
| Sept. '88 | 59.7% | 33.9% | 6.5% | 53.2% |
| June '88 | 55.7% | 36.4% | 8.0% | 47.7% |
| March '88 | 54.2% | 34.9% | 10.8% | 43.4% |

| Survey Month | Percent Reporting Wages & Salaries: Rising | Unchanged | Falling | Net Rising |
|---|---|---|---|---|
| Sept. '88 | 33.3% | 64.5% | 2.2% | 31.1% |
| June '88 | 32.8% | 63.5% | 3.6% | 29.2% |
| March '88 | 40.0% | 54.8% | 5.2% | 34.8% |




Shortages

Shortages have become more pervasive as the year has progressed. Now fewer than half of our respondents are reporting no problems. Nearly a third are having trouble getting enough skilled labor.

| Type of input | Percent Reporting Shortages in Survey Month: March | June | September |
|---|---|---|---|
| Skilled Labor | 16.2% | 25.9% | 32.6% |
| Unskilled Labor | 9.4% | 11.2% | 11.6% |
| Intermediate Inputs | 8.6% | 14.7% | 10.5% |
| Raw Material Inputs | 8.6% | 8.6% | 10.5% |
| Capital Goods | 0.8% | 5.2% | 5.8% |
| No Shortages | 65.8% | 56.0% | 48.8% |

## Profits

According to the total sample more of our members are reporting rising profit margins than falling margins. The performance does vary somewhat by sector, however. As shown in the following table goods-producers are struggling a bit more than other segments with nearly 30% indicating falling margins. The TTUC sector currently has the strongest performance.

| Sector | Percent Reporting that Profit Margins are: Rising | Unchanged | Falling | Net Rising |
|---|---|---|---|---|
| Total | 31.2% | 47.3% | 21.5% | 9.7% |
| Goods-Producing | 25.9% | 44.4% | 29.6% | -3.7% |
| TTUC | 33.3% | 55.6% | 11.1% | 22.2% |
| Other Services | 33.3% | 43.6% | 23.1% | 10.2% |

Charts 8 and 9 indicate that goods-producing industries have historically had more volatile profit performance than our sample of all industries. The current period is apparently no exception.